MICHIGAN STATE UNIVERSITY EXTENSION
MACOMB COUNTY
BOARD OF COMMISSIONERS

OPTIONS IN FORECLOSURE
SELL YOUR HOME

MSUE HOUSING DEPARTMENT (586)469-6430

I. PRE-FORECLOSURE SALE OR STRAIGHT SALE

Put the house on the market with a real estate agent and with the right price.

A. Ask the bank or mortgage company to delay the foreclosure sale and for permission to complete a pre-sale. Get it in writing.

B. In a bad real estate market, do not assume that the house will sell quickly.

C. A pre-sale works <u>if</u> the sale price is high enough to pay off the mortgage, any home equity loans, back taxes, selling expenses and foreclosure fees.

II. SHORT SALE

The bank or mortgage company allows you to complete a sale even though the price is less than what you owe them.

A. Ask the bank or mortgage company to delay the foreclosure sale and for permission to complete a short sale. Get it in writing.

B. Ask the lender to "cancel any deficiency," so that the lender will not demand repayment of the rest of what you owe and does not report the deficiency to the credit bureaus. Get commitments in writing.

C. Do a short sale <u>only</u> after you learn about the income tax consequences of a short sale. The IRS calls the amount of debt that is cancelled income! If you have lost income and will be in a lower tax bracket, it could work out fine. In other cases, you are left with a big tax bill. Talk to the person who does your income tax or a tax lawyer. If you will owe the IRS, how will you pay them? Sometimes (not always), letting the foreclosure proceed is a better choice, if by doing a short sale, you get stuck with a big tax bill that you cannot pay.

III. MORTGAGE ASSUMPTION

A third party takes over your mortgage, brings it current and continues paying it.

A. Some mortgages are assumable; others are not. Look at your original mortgage documents or ask your bank / mortgage company.

B. See a lawyer before you do this because when someone else assumes the mortgage, they become the new owners of the home. It may work, but you need to fully understand it and avoid some major pitfalls.

C. Sometimes, adult children assume their parents' mortgage or vice versa in order to keep the equity (the amount of the house that you own) from being lost to foreclosure and to keep the equity within the family. Consider this if you have an assumable mortgage, have a lot of equity in your home and have a relative who has the money, credit and willingness to assume the mortgage.

D. DO NOT DO THIS with strangers or real estate companies who convince you that it is a way to save your house. It isn't. You will become a renter and they will have "stripped" or taken your equity.

IV. DEED IN LIEU OF FORECLOSURE

You voluntarily turn over your house to the bank or mortgage company.

A. Almost always a bad idea for you and a good idea for the bank or mortgage company. DO NOT DO THIS unless you get something in return and in writing.

B. Ask the bank or mortgage company to:

1. Cancel any deficiencies and fees.
2. Eliminate negative credit references.
3. Allow you to have extra time in the house.
4. Pay your moving expenses.

V. GENERAL FORECLOSURE SELLING TIPS

- Record information on calls.
- Open and keep letters.
- Get agreements in writing.
- *Never* sign a release giving up all legal claims until the actual workout agreement with the bank or mortgage company is finalized.
- Stay organized. Stay focused.

Sources: Michigan State Housing Development Authority, *Housing Counselors Training Manual*
National Consumer Law Center, *Guide to Surviving Debt*

The last choice – allowing the foreclosure to proceed – should be a strategy, not a passive denial of reality.

II. Let Foreclosure Run Its Course

A. Staying in Your Home Until the Redemption Period Ends

If you cannot keep the house and have not had success selling it or negotiating with the lender for a deed in lieu of foreclosure, your decision is about <u>when</u> to leave: immediately or near the end of the redemption period?

Go back to your budget. Without the house payment, look at your income minus expenses. What money do you have to work with? Ask yourself these questions:

- Will you be better off moving quickly because the cost of rent, utilities and renter's insurance will be less than the monthly upkeep of the house you must leave? By moving early in the redemption period, are you facing reality and the need to start over?
- Or will you be better off staying because you can save money for the first month's rent, security deposit and moving expenses? Will staying give you more time to look for new housing and to sell items? Or by staying in the house, are you clinging to the past?

B. Life After Foreclosure

A financial crisis is a very stressful time, but you are not your house. You can start over and have a good life. Have hope.

- Spend less than 30% of your gross monthly income on rent.
- Do not rent a storage unit. Recovering from a crisis takes time and finances will be tight. Many people end up losing their items in the storage unit for non-payment. Sell your stuff or store it at a relative's place for free. Concentrate on the essentials. Travel light!
- Take a money management class. Use a budget. Spend less than you earn.
- Get renter's insurance and car insurance. Search for affordable health and dental insurance. Insurance protects you from going backwards.
- Limit junk mail so you aren't overwhelmed by credit offers.
- A lender will consider you for a mortgage two - four years after a foreclosure if you have steady employment, modest debt and a good payment history during the time. You will qualify for first-time homebuyer programs after three years of not owning a home.